

# **INTERNAL AUDIT PLAN - DRAFT**

## **SOUTH KESTEVEN DISTRICT COUNCIL**

2025/26



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# AUDIT RISK ASSESSMENT

## BACKGROUND

Our risk-based approach to internal audit uses South Kesteven District Council's (The Council) own risk management process and risk register as a starting point for audit planning as this represents the client's own assessment of the risks to it achieving its strategic objectives.

The extent to which we can rely on management's own perception of risk largely depends on the maturity and effectiveness of the Council's own risk management arrangements. In estimating the amount of audit resource required to address the most significant risks, we have also sought to confirm that senior management's own assessment of risk accurately reflects the Council's current risk profile.

## PLANNED APPROACH TO INTERNAL AUDIT 2025/26

The indicative Internal Audit programme for 2025/26 is set out on pages 7 to 14. We met with the Corporate Management Team to bring together a full plan which was presented to the Governance and Audit Committee meeting for review in January and is now being presented for formal approval. We will keep the programme under continuous review during the year and will introduce to the plan any significant areas of risk identified by management during that period.

The plan is set within the context of a multi-year approach to internal audit planning, such that all areas of key risks would be looked at over a three-year audit cycle. We have suggested future areas of focus as part of the three-year strategic internal audit plan, set out on pages 5 and 6.

## INDIVIDUAL AUDITS

When we scope each review, we will reconsider our estimate for the number of days needed to achieve the objectives established for the work and to complete it to a satisfactory standard in light of the control environment identified within the Council. Where revisions are required, we will obtain approval from the appropriate Director prior to commencing fieldwork.

In determining the timing of our individual audits, we will seek to agree a date which is convenient to the Council, and which ensures availability of key management and staff and takes account of any operational pressures being experienced.

## VARIATIONS TO THE PLAN

We review the three-year strategic plan each year to ensure we remain aware of your ongoing risks and opportunities. Over the coming pages we have mapped your key risks along with the audit work we propose to undertake, demonstrating we are focussing on your most important issues.

As such, our strategic audit programme follows the risks identified during our planning processes and confirmed via discussions with the Corporate Management Team. If these were to change, or emerging risks were to develop during this period, we would take stock and evaluate our coverage accordingly.

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# OUR NEXT GEN INTERNAL AUDIT APPROACH

Our innovative Next Gen approach to internal audit ensures you maximise the potential added value from BDO as your internal audit provider and the expertise we bring from our dedicated Public Sector Internal Audit team and wider BDO specialist teams.

The Next Gen approach allows us to deliver a healthy mix of assurance that is forward looking, flexible and responsive and undertaken in partnership with yourselves. The key components to this approach are outlined below and underpin our proposed plan coverage:

## CORE ASSURANCE

Reviews of fundamental finance and operational systems to provide assurance that core controls and procedures are operating as intended.

## SOFT CONTROLS

Reviews seek to understand the true purpose behind control deficiencies and provide a route map to enhance their effectiveness.

## FUTURE FOCUSED ASSURANCE

Rather than wait for implementation and then comment on identified weaknesses, we will work with you in an upfront / real time way.






## FLEXIBLE AUDIT RESOURCE

Undertake proactive work across the Council, perhaps in preparation for regulatory reviews or change management programmes.



## MAPPING YOUR STRATEGIC RISKS

REF	STRATEGIC RISKS FROM YOUR SRR	NET SCORE	RATING
1	Successful/serious cyber security attack on the Council	13	
2	Serious safeguarding failure by the Council	9	
3	Serious health, safety, and well-being failure by the Council	9	
4	Ineffective financial management	6	
5	Unable to maintain and build quality and consistency in service provision by the Council	9	
6	Unable to maintain and build sufficient staffing capacity and capability	9	
7	Failure to explore digital transformation of Council Services	12	
8	Not maintaining and developing fruitful partnerships and collaborations	9	
9	#TeamSK values/culture are not lived	9	
10	Unable to meet requirements of new regulations and legislations affecting the Council	6	

Ref	Strategic Risks from your SRR	NET Score	rating
11	Not sufficiently engaging with and responding to climate change	9	
12	Not effectively engaging with our key external stakeholders	5	
13	Governance failure	9	
14	Significant fraud/theft successfully committed against the Council	10	
15	Unable to effectively respond to political priorities	10	

## MAPPING YOUR SRR TO THE STRATEGIC PLAN

REF	STRATEGIC RISKS FROM YOUR SRR	2025/26	2026/27	2027/28
1	Successful/serious cyber security attack on the Council	<ul style="list-style-type: none"> <li>N/A</li> </ul>	<ul style="list-style-type: none"> <li>Cyber Security</li> </ul>	<ul style="list-style-type: none"> <li>Data Protection, EIR and Subject Access Request</li> </ul>
2	Serious safeguarding failure by the Council	<ul style="list-style-type: none"> <li>Voids Management</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>	<ul style="list-style-type: none"> <li>Safeguarding</li> </ul>
3	Serious health, safety, and well-being failure by the Council	<ul style="list-style-type: none"> <li>Building Control</li> <li>Market Services</li> <li>Voids Management</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>	<ul style="list-style-type: none"> <li>Corporate Health and Safety</li> </ul>
4	Ineffective financial management	<ul style="list-style-type: none"> <li>Treasury Management</li> <li>Accounts Payable</li> <li>Payroll</li> <li>Main Financial Systems</li> </ul>	<ul style="list-style-type: none"> <li>Housing Revenue Account</li> <li>Fixed Asset Register</li> </ul>	<ul style="list-style-type: none"> <li>Income generation</li> <li>Main Financial Systems</li> <li>Council Tax and NNDR</li> </ul>
5	Unable to maintain and build quality and consistency in service provision by the Council	<ul style="list-style-type: none"> <li>Voids Management</li> <li>Building Control</li> </ul>	<ul style="list-style-type: none"> <li>Parking</li> <li>Planning Service Review Action Plan</li> </ul>	<ul style="list-style-type: none"> <li>Business Continuity and Disaster Recovery</li> <li>Homelessness</li> </ul>
6	Unable to maintain and build sufficient staffing capacity and capability	<ul style="list-style-type: none"> <li>N/A</li> </ul>	<ul style="list-style-type: none"> <li>Sickness and Absence management</li> </ul>	<ul style="list-style-type: none"> <li>Recruitment and Retention</li> </ul>
7	Failure to explore digital transformation of Council Services	<ul style="list-style-type: none"> <li>IT Strategy</li> </ul>	<ul style="list-style-type: none"> <li>Cyber Security</li> </ul>	<ul style="list-style-type: none"> <li>IT Strategy</li> </ul>

REF	STRATEGIC RISKS FROM YOUR SRR	2025/26	2026/27	2027/28
8	Not maintaining and developing fruitful partnerships and collaborations	• Building Control	• N/A	• N/A
9	#TeamSK values/culture are not lived	• N/A	• Equality Diversity and Inclusion	• N/A
10	Unable to meet requirements of new regulations and legislations affecting the Council	• N/A	• N/A	• Housing Repairs • Housing Benefit
11	Not sufficiently engaging with and responding to climate change	• Climate Plan	• Social Housing Decarbonisation Fund (Wave 3)	• Commercial Waste Services, Bins, Street Care and Recycling
12	Not effectively engaging with our key external stakeholders	• N/A	• N/A	• N/A
13	Governance failure	• Performance Management	• N/A	• N/A
14	Significant fraud/theft successfully committed against the Council	• Treasury Management • Payroll	• N/A	• Housing Benefit • Main Financial Systems
15	Unable to effectively respond to political priorities	• Performance Management	• N/A	• N/A



## INTERNAL AUDIT OPERATIONAL PLAN 2025/26

AREA	SRR	DAYS	TIMING	DESCRIPTION OF THE REVIEW	REASON FOR INCLUSION
<b>Core Assurance</b>					
<b>Voids Management</b>	2,3	20	Q2	<p>To review the Council's void property management process to assess efficiency and effectiveness of procedures for returning empty properties back to use. This will include:</p> <ul style="list-style-type: none"> <li>•Property inspection and void classifications</li> <li>•Contractor scheduling and work scheduling</li> <li>•Quality assurance processes for completed works</li> </ul>	Void properties represent a significant loss of rental income for the Council and impact availability of social housing for those in need. Effective void management is crucial for minimising rental income loss. A previous audit by our predecessors provided Limited assurance over the effectiveness of controls particularly around the ineffective management of voids, with properties left empty for extended periods.
<b>Payroll</b>	4,14	17.5	Q1	<p>To evaluate the effectiveness of payroll controls and system access management by examining:</p> <ul style="list-style-type: none"> <li>•User access rights and permissions mapping</li> <li>•Segregation of duties in system roles</li> <li>•Super user access monitoring</li> <li>•Interface access controls between</li> <li>•HR/Payroll systems</li> <li>• Audit trail monitoring and review</li> </ul>	The payroll system contains sensitive personal and financial data and represents significant expenditure for the Council. Therefore, robust controls are needed to limit system access, fraud prevention and maintaining the accuracy of payments to staff.
<b>Treasury Management</b>	4,14	17.5	Q3	<p>To evaluate the controls over treasury management activities by examining:</p> <ul style="list-style-type: none"> <li>•Investment decisions and authorisation processes</li> <li>•Counterparty risk assessment and monitoring</li> </ul>	The Council manages an investment portfolio of c£83M requiring robust controls to protect public funds and ensure compliance with regulatory requirements, especially seeing the increased risks around investment decisions and counterparty exposures due to current economic volatility and interest rate environment.

AREA	SRR	DAYS	TIMING	DESCRIPTION OF THE REVIEW	REASON FOR INCLUSION
				<ul style="list-style-type: none"> <li>•Monitor compliance with investment strategy</li> <li>•Accuracy and timeliness of Management reporting</li> <li>•Segregation of duties in investment operations</li> </ul>	
Climate Plan	11	20	Q1	A review of the Climate Reserve to determine how £300,000 allocated was specifically spent and provide assurance over whether this is adequate to meet the councils target of a 30% reduction in carbon emissions by 2030. The review will provide assurance over the progress the Council have made in implementing its Climate Action Plan.	Climate plan and reduction of emissions is a key objective of the Council. The Council declared a climate emergency in September 2019 and has committed to reducing the carbon emissions generated by its operations by at least 30% by 2030. A more ambitions target to be a Net Zero District by 2041. To provide the Governance and Audit Committee with assurance over its progress against these ambitions, we will assess the governance and operational delivery of the Climate Action Plan
Market Services	3	15	Q4	We will review the progress of the Operational Action Plan to improve the Market Service and assess whether sufficient action has been taken against the issues raised. Specifically, we will assess whether appropriate processes have been implemented for fee collections and correct fees and charges are collected for market stalls, the status of the 17 actions that are either not started or in progress as well as operational efficiency of market services	A report on the operational practice of Markets was presented to the Governance and Audit Committee in June 2023, which identified a significant number of issues resulting from inadequate management. These include inconsistent fee collection and cash-only payments creating avoidable risks, heavy reliance on casual staff, aged equipment with inadequate maintenance, unauthorised access to Council stores by former employees, health and safety concerns around outdated risk assessments, poor welfare facilities for staff. The report resulted in the production of an action plan to improve procedures.
Accounts Payable	14,4	15	Q3	Assess the arrangements to input, amend, record and report accounts payable data including whether the software/procurement methods in place is effective. We will also review a sample of purchases	This is a standard review we include in our annual plan to provide us with assurance required for support our annual opinion.

AREA	SRR	DAYS	TIMING	DESCRIPTION OF THE REVIEW	REASON FOR INCLUSION
				to ensure POs were approved, paid in a timely manner and whether opportunities for efficiencies have been identified.	
Building Control	3,5,8	15	Q3	<p>To examine Council's participation and oversight of services delivered through the East Midland Building Consultancy (EMBC) partnership arrangement focusing on:</p> <ul style="list-style-type: none"> <li>•Partnership governance and performance monitoring</li> <li>•Financial arrangements including fee sharing and cost allocation</li> </ul> <p>Oversight of service quality and customer satisfaction procedures.</p>	Although the Service is delivered through a partnership, the Council retains statutory responsibilities for providing building control services. This review will assess the service delivery and quality, and that local building safety responsibilities are met through our sample testing. There is also growing competition from private approved inspectors which could affect the partnership's viability going forward.
Main Financial Systems	4	18	Q4	<p>Local authorities are required to maintain sufficient effective controls over their main financial systems to support effective management of resources. Financial controls play an important role in ensuring the accuracy of reporting, eliminating fraud, and protecting the organisation's resources, both physical and intangible. These internal control procedures processes at will be assessed through:</p> <p>A review of the Council's main financial systems covering budget setting and accounting to ensure the controls are set out and operating effectively. Looking at key risks like:</p> <ul style="list-style-type: none"> <li>•Inadequate segregation of duties within the main financial systems, leading to an increased risk of fraud, error, or unauthorised transactions.</li> <li>•Weak access controls to financial systems, resulting in unauthorised access, data breaches, or manipulation of financial data.</li> </ul>	Assurance of main financial systems is critical to support our Annual Opinion.

AREA	SRR	DAYS	TIMING	DESCRIPTION OF THE REVIEW	REASON FOR INCLUSION
				Ineffective budget management and setting processes, resulting in overspending, underfunding, or misallocation of resources.	
Total	8	138			

AREA	SRR	DAYS	TIMING	DESCRIPTION OF THE REVIEW	REASON FOR INCLUSION
Soft Controls					
Performance Management	13	20	Q2	Assess the development, agreement and review of Key Performance Indicators (KPIs) to determine alignment with the Councils strategic objectives. Assess whether the KPIs are SMART, monitored and progress reported regularly through appropriate scrutiny committees, as well as how the performance information is used for decision-making.	Managing performance is a key part in delivering the ambitions and actions of the Council’s Corporate Plan for 2024-27. The Council intends to support the plan through monitoring KPIs and strategic socio-economic indicators.
Total	1	20			

AREA	SRR	DAYS	TIMING	DESCRIPTION OF THE REVIEW	REASON FOR INCLUSION
<b>Future Focused Assurance</b>					
<b>IT Strategy</b>	1,7	15	Q3	<p>Assess the implementation of the key principles of the Council's IT Strategy:</p> <ul style="list-style-type: none"> <li>•The ICT platform - this principle aims to ensure that end-to-end interactions are as simple and streamlined as possible as this will create an improved customer experience.</li> </ul> <p>A digital workforce - this principle focuses on enabling our employees to have access to the right tools to do their job and be confident in maximising the use and benefits of technology in daily work.</p>	Seeing the IT Strategy is fundamental to the Council's digital plan, it's important to obtain assurance over its delivery, more so it is a core review we include in our annual plan to provide us with assurance required to support our annual opinion.
<b>Total</b>	<b>1</b>	<b>15</b>			



AREA	SRR	DAYS	TIMING	DESCRIPTION OF THE REVIEW	REASON FOR INCLUSION
Flexible Audit Resource - To be allocated during the year as required but could include the examples shown below					
Contingency/ Flexible resource	N/A	27	All	Contingency days left to allocate to flexible work.	We have built in an allocation of flexible days into our plan to support the Council on emerging risks or projects during the year.
		27			
Total					

AREA	SRR	DAYS	TIMING	DESCRIPTION OF THE REVIEW	REASON FOR INCLUSION
<b>Contract Management</b>					
Planning / liaison / management	N/A	8	Q1 - Q4	Creation of audit plan, meeting with Corporate Management Team	Effective contract management
Recommendations follow up	N/A	7	Q2 and Q4	Assessment and reporting of status of implementation of recommendations raised	Assurance for Council Management Team and Governance and Audit Committee
[Audit Committees]	N/A	5	Q1 - Q4	Attendance at Governance and Audit Committee meetings, pre-meets and Governance and Audit Committee Chair liaison	Effective contract management
<b>Total</b>		<b>20</b>			

SUMMARY	DAYS
Core Assurance	138
Soft Controls	20
Future Focused Reviews	15
Flexible Audit Resource	27
Contract Management	20
<b>Total days</b>	<b>220</b>

# APPENDIX I

## INTERNAL AUDIT CHARTER

This charter is a requirement of internal audit standards.

The charter formally defines internal audit's purpose, authority and responsibility. It establishes internal audit's position within South Kesteven District Council 'the Council' and defines the scope of internal audit activities.

Final approval of this charter resides with the Governance and Audit Committee (GAC) on behalf of the Cabinet.

## STANDARDS OF INTERNAL AUDIT PRACTICE

To fulfil its purpose, internal audit will perform its work in accordance with the *Global Internal Audit Standards in the UK Public Sector*, which encompass:

- ▶ The global Institute of Internal Auditors (IIA) *Global Internal Audit Standards* (GIAS) effective from January 2025
- ▶ The Internal Audit Standards Advisory Board (IASAB) *Application Note Global Internal Audit Standards in the UK Public Sector* effective from 1 April 2025.

For local government internal audit, internal audit is also required to comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) *Code of Practice for the Governance of Internal Audit in UK Local Government*, effective from 1 April 2025.

The GIAS refer to the 'board' as 'the highest-level body charged with governance, such as a board of directors, an Audit Committee, a board of governors or trustees, or a group of elected officials or political appointees.' For the Council, 'the board' is the GAC acting on behalf of the Council.

The GIAS also refer to the 'chief audit executive' as the 'leadership role responsible for effectively managing all aspects of the internal audit function and ensuring the quality performance of internal audit services in accordance with Global Internal Audit Standards.' For the [Council/Trust/ICB]'s internal audit function, 'the chief audit executive' is the BDO-assigned Partner acting as the Head of Internal Audit (HoIA).

## INTERNAL AUDIT'S PURPOSE AND MANDATE

### Purpose

The purpose of the internal audit function is to strengthen the Council's ability to create, protect, and sustain value by providing the GAC and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

The internal audit function enhances the Council's:

- ▶ Successful achievement of its objectives
- ▶ Governance, risk management, and control processes
- ▶ Decision-making and oversight
- ▶ Reputation and credibility with its stakeholders
- ▶ Ability to serve the public interest.

The Council's internal audit function is most effective when:

- ▶ Internal auditing is performed by competent professionals in conformance with the GIAS in the UK Public Sector
- ▶ The internal audit function is independently positioned with direct accountability to the GAC

- ▶ Internal auditors are free from undue influence and committed to making objective assessments.

The role of the Council's internal audit therefore includes:

- ▶ Supporting the delivery of the Council's strategic objectives by providing risk-based and objective assurance on the adequacy and effectiveness of governance, risk management and internal controls
- ▶ Championing good practice in governance through assurance, advice and contributing to the Council's annual governance review
- ▶ Advising on governance, risk management and internal control arrangements for major projects, programmes and system changes
- ▶ Access to the Council's collaborative and arm's-length arrangements.

### **Mandate - Authority**

The GAC grants the internal audit function the mandate to provide the GAC and senior management with objective assurance, advice, insight, and foresight.

The internal audit function's authority is created by its direct reporting relationship to the GAC. Such authority allows for unrestricted access to the GAC.

The GAC authorises the internal audit function to:

- ▶ Have full and unrestricted access to all functions, data, records, information, physical property, and personnel pertinent to carrying out internal audit responsibilities; internal auditors are accountable for confidentiality and safeguarding records and information
- ▶ Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the function's objectives
- ▶ Obtain assistance from the necessary organisation's personnel in relevant engagements, as well as other specialised services from within or outside the organisation to complete internal audit services.

### **Mandate - Independence, position, and reporting relationships**

- ▶ The HoIA will be positioned at a level in the organisation that enables internal audit services and responsibilities to be performed without interference from management, thereby establishing the independence of the internal audit function.
- ▶ The HoIA will report functionally to the GAC and administratively to the s151 Officer of Finance/Chief Finance Officer/other relevant title].
- ▶ This positioning provides the organisational authority and status to bring matters directly to senior management and escalate matters to the GAC, when necessary, without interference and supports the internal auditors' ability to maintain objectivity.
- ▶ The HoIA will confirm to the GAC, at least annually, the organisational independence of the internal audit function.
- ▶ The HoIA will disclose to the GAC any interference internal auditors encounter related to the scope, performance, or communication of internal audit work and results. The disclosure will include communicating the implications of such interference on the internal audit function's effectiveness and ability to fulfil its mandate.

## **GOVERNANCE AND AUDIT COMMITTEE OVERSIGHT**

To establish, maintain, and ensure that the Council's internal audit function has sufficient authority to fulfil its duties, the GAC will:

- ▶ Discuss with the HoIA and senior management the appropriate authority, role, responsibilities, scope, and services (assurance and/or advisory) of the internal audit function
  - ▶ Ensure the HoIA has unrestricted access to and communicates and interacts directly with the GAC, including in private meetings without senior management present
  - ▶ Discuss with the HoIA and senior management other topics that should be included in the internal audit charter
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- ▶ Participate in discussions with the HoIA and senior management about the “essential conditions”, described in the GIAS, which establish the foundation that enables an effective internal audit function
- ▶ Review and approve the internal audit function’s charter annually, which includes the internal audit mandate and the scope and types of internal audit services
- ▶ Approve the risk-based internal audit plan
- ▶ Approve the internal audit function’s human resources administration and budgets
- ▶ Collaborate with senior management to determine the qualifications and competencies the Council expects in a HoIA
- ▶ Authorise the appointment and removal of the HoIA and outsourced internal audit provider
- ▶ Approve the fees paid to the outsourced internal audit provider
- ▶ Review the HoIA’s and internal audit function’s performance
- ▶ Receive communications from the HoIA about the internal audit function including its performance relative to its plan
- ▶ Ensure a quality assurance and improvement program has been established and review the results annually
- ▶ Make appropriate inquiries of senior management and the HoIA to determine whether scope or resource limitations are inappropriate.

#### **Changes to the Mandate and Charter**

Circumstances may justify a follow-up discussion between the HoIA, GAC, and senior management on the internal audit mandate or other aspects of the internal audit charter. Such circumstances may include but are not limited to:

- ▶ A significant change in the GIAS in the UK Public Sector
- ▶ A significant acquisition or reorganisation within the Council
- ▶ Significant changes in the HoIA, GAC, and/or senior management
- ▶ Significant changes to the Council’s strategies, objectives, risk profile, or the environment in which the Council operates
- ▶ New laws or regulations that may affect the nature and/or scope of internal audit services.

#### **Support for Internal Audit**

Internal audit’s activities require access to and support from senior management, the GAC and those charged with governance. Support allows internal audit to apply the mandate and charter in practice and meet expectations.

The Council will support the internal audit function by:

- ▶ Championing the role and work of internal audit to the staff within the Council and to partner organisations with whom internal audit works
- ▶ Facilitating access to senior management, the GAC and the Council’s external auditor
- ▶ Assisting, where possible, with access to external providers assurance such as regulators, inspectors and consultants
- ▶ Engaging constructively with internal audit’s findings, opinions and advice
- ▶ Building awareness and understanding of the importance of good governance, risk management and internal control for the success of the Council and of internal audit’s contributions.

The Council will also put in place conditions to enable the internal audit work:

- ▶ Ensuring that the reporting line of the HoIA is not lower than a member of the senior management team and that the HoIA has access to all members of the team
- ▶ Ensuring that client responsibility lies with a member of senior management

The GAC will support internal audit by:

- ▶ Enquiring of senior management and the HoIA about any restrictions on the internal audit's scope, access, authority or resources that limit its ability to carry out its responsibilities effectively
- ▶ Considering the audit plan or planning scope, and formally approving or recommending approval to those charged with governance
- ▶ Meeting at least annually with the HoIA in sessions without senior management present.

Senior management will establish and safeguard internal audit's independence by:

- ▶ Ensuring internal audit's access to staff and records, as set out in regulations and the charter, operates freely and without any interference
- ▶ Ensuring that the HoIA reports in their own right to the GAC on the work of internal audit
- ▶ Providing opportunities for the HoIA to meet with the GAC without senior management present
- ▶ Where there are actual or potential impairments to the independence of internal audit, working with the HoIA to remove or minimise them or ensure safeguards are operating effectively
- ▶ Recognising that if the HoIA has additional roles and responsibilities beyond internal auditing, or if new roles are proposed, it could impact on the independence and performance of internal audit; in such cases the impact must be discussed with the HoIA and the views of the GAC sought
- ▶ Where needed, appropriate safeguards will be put in place by senior management to protect the independence of internal audit and support conformance with professional standards. Matters around the appointment, removal, remuneration and performance evaluation of the HoIA will be undertaken by senior management, but these arrangements must not be used to undermine the independence of internal audit. The GAC will provide feedback on the performance evaluation of the HoIA, which should include feedback from the Chair of the GAC.

#### **Interaction between the [Audit Committee] and Internal Audit**

The GAC will support internal audit's independence by reviewing the effectiveness of safeguards at least annually, including any issues or concerns about independence from the HoIA. The HoIA will have the right of access to the Chair of the GAC at any time. The GAC can escalate its concerns about internal audit independence to those charged with governance.

To ensure there is good interaction between the AC and internal audit, the AC will agree its work plan with the HOIA to ensure there is appropriate coverage of internal audit matters within GAC agendas. The GAC workplan will provide for the internal audit mandate and charter, strategy, plans, engagement reporting and the annual conclusion, and quality reports.

The GAC is familiar with the Council's assurance framework, governance, risk management and internal control arrangements to facilitate its interactions with internal audit.

Senior management will engage with the GAC on any significant changes to governance, risk and control arrangements and any concerns they may have on assurance. The GAC will have oversight of the annual governance statement before final approval.

Where there is disagreement about the management of risks or agreed audit actions between internal audit and senior management, the GAC will review and make their recommendation to either management or those charged with governance.

#### **Internal Audit Resources**

The GAC and senior management will engage with the HOIA to review whether internal audit's financial, human and technological resources are sufficient to meet internal audit's mandate as set out in the

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regulations and achieve conformance with GIAS in the UK public sector. Where there are concerns about internal audit's ability to fulfil its mandate or deliver an annual conclusion, the concerns will be formally recorded and reported to those charged with governance.

If resource issues result in a limitation of scope on the annual conclusion, this will be reported and disclosed in the annual governance statement. Decisions on internal audit resourcing by senior management and those charged with governance must take account of the longer-term risks to the governance and financial sustainability of the Council and internal audit's role in supporting those objectives. Where there are temporary resource constraints, senior management must work with the HOIA to establish longer-term plans for sustainable internal audit resources.

## Quality

Annually, the GAC will review the results of the HOIA's assessment of conformance against GIAS in the UK public sector (including CIPFA's Code of Practice for the Governance of Internal Audit in UK Local Government) including any action plan. The GAC will review the HOIA's annual report, including the annual conclusion on governance, risk management and control, and internal audit's performance against its objectives. To meet the requirements of the regulations (the mandate) for internal audit, the GAC will satisfy itself on the effectiveness of internal audit. They will take into account conformance with the standards, interactions with the GAC, performance and feedback from senior management. Their conclusions will be reported to those charged with governance, for example, as part of the GAC's annual report.

## External Quality Assessment

On behalf of those charged with governance and the GAC, senior management will ensure that internal audit has an external quality assessment at least once every five years of its conformance against GIAS in the UK public sector, including CIPFA's Code of Practice for the Governance of Internal Audit in UK Local Government.

Senior management and the HOIA will discuss the timing of the review and report the options and their recommendation to the GAC. The proposals for the scope, method of assessment and assessor will be brought to the GAC for agreement. The assessor must use CIPFA's Code of Practice for the Governance of Internal Audit in UK Local Government alongside the standards and be familiar with the sector. The GAC will receive the complete results of the assessment and consider the HOIA's action plan to address any recommendations. Progress will be monitored. [Where the AC does not have delegated authority, the committee will report the overall results of the external quality assessment to those charged with governance.]

## HEAD OF INTERNAL AUDIT ROLES AND REPOSNSIBILITIES

### Ethics and Professionalism

The HOIA will ensure that internal auditors:

- ▶ Conform with the GIAS in the UK Public Sector, including the principles of Ethics and Professionalism (integrity, objectivity, competency, due professional care, and confidentiality) and the Seven Principles of Public Life (the 'Nolan Principles') (selflessness, integrity, objectivity, accountability, openness, honesty and leadership)
- ▶ Understand, respect, meet, and contribute to the legitimate and ethical expectations of the organisation and be able to recognise conduct that is contrary to those expectations
- ▶ Encourage and promote an ethics-based culture in the organisation
- ▶ Report organisational behaviour that is inconsistent with the organisation's ethical expectations, as described in applicable policies and procedures.

### Objectivity

The HOIA will ensure that the internal audit function remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication. If the HOIA determines

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that objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively such that they believe in their work product, do not compromise quality, and do not subordinate their judgment on audit matters to others.

Internal auditors will have no direct operational responsibility or authority over any activities they review. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, or engage in other activities that may impair their judgment.

Internal auditors will:

- ▶ Disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties and at least annually, such as the HoIA, GAC, management, or others
- ▶ Exhibit professional objectivity in gathering, evaluating, and communicating information
- ▶ Make balanced assessments of all available and relevant facts and circumstances
- ▶ Take necessary precautions to avoid conflicts of interest, bias, and undue influence.

### **Managing the Internal Audit Function**

The HoIA has the responsibility to:

- ▶ Understand the Council's governance, risk management and control processes, and the importance in the UK public sector of securing value for money, in developing an effective strategy and plan.
  - ▶ At least annually, develop a risk-based internal audit plan that considers the input of the GAC and senior management; discuss the plan with the GAC and senior management and submit the plan to the GAC for review and approval
  - ▶ Communicate the impact of resource limitations on the internal audit plan to the GAC and senior management
  - ▶ Review and adjust the internal audit plan, as necessary, in response to changes in the Council's business, risks, operations, programs, systems, and controls
  - ▶ Communicate with the GAC and senior management if there are significant interim changes to the internal audit plan
  - ▶ Ensure internal audit engagements are performed, documented, and communicated in accordance with the GIAS in the UK Public Sector
  - ▶ Follow up on engagement findings and confirm the implementation of recommendations or action plans and communicate the results of internal audit services to the GAC and senior management periodically and for each engagement as appropriate
  - ▶ Ensure the internal audit function collectively possesses or obtains the knowledge, skills, and other competencies and qualifications needed to meet the requirements of the GIAS in the UK Public Sector and fulfil the internal audit mandate (in public sector internal audit, the HoIA is required to have a CMIIA, or a CCAB qualification, or an equivalent professional qualification which includes training on the practice of internal audit, and suitable internal audit experience)
  - ▶ Identify and consider trends and emerging issues that could impact the Council and communicate to the GAC and senior management as appropriate
  - ▶ Consider emerging trends and successful practices in internal auditing
  - ▶ Establish and ensure adherence to methodologies designed to guide the internal audit function
  - ▶ Ensure adherence to relevant policies and procedures unless such policies and procedures conflict with the internal audit charter or the GIAS; any such conflicts will be resolved or documented and communicated to the GAC and senior management
  - ▶ Coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services; if the HoIA cannot achieve an appropriate level of coordination, the issue will be communicated to senior management (including the barriers to effective co-ordination with other assurance providers) and if necessary escalated to the GAC.
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## Communication with the Governance and Audit Committee and Senior Management

The HoIA will report quarterly to the GAC and senior management regarding:

- ▶ The internal audit function's mandate
- ▶ The internal audit plan and performance relative to its plan
- ▶ Internal audit budget
- ▶ Significant revisions to the internal audit plan and budget
- ▶ Potential impairments to independence, including relevant disclosures as applicable
- ▶ Results from the quality assurance and improvement program, which include the internal audit function's conformance with the GIAS in the UK Public Sector and action plans to address the internal audit function's deficiencies and opportunities for improvement
- ▶ Significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus for the GAC
- ▶ Results of assurance and advisory services
- ▶ Resource requirements
- ▶ Management's responses to risk that the internal audit function determines may be unacceptable or acceptance of a risk that is beyond the Council's risk appetite.

## Quality Assurance Improvement Programme

The HoIA will develop, implement, and maintain a quality assurance and improvement program (QAIP) that covers all aspects of the internal audit function.

The program will include external and internal assessments of the internal audit function's conformance with the GIAS in the UK Public Sector, as well as performance measurement to assess the internal audit function's progress toward the achievement of its objectives and promotion of continuous improvement.

The plan will assess the efficiency and effectiveness of internal audit and identify opportunities for improvement.

Annually, the HoIA will communicate with the GAC and senior management about the internal audit function's QAIP, including the results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments.

External assessments will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside BDO. Qualifications must include at least one assessor holding an active Certified Internal Auditor credential. For public sector internal audit, such a person should have an understanding of the GIAS commensurate with the Certified Internal Auditor designation, including internal audit relevant continuing professional development and an understanding of how the GIAS are applied in the UK public sector.

## SCOPE AND TYPES OF INTERNAL AUDIT SERVICES

The scope of internal audit services covers the entire breadth of the Council, including all the Council's activities, assets, and personnel.

The scope of internal audit activities also encompasses but is not limited to objective examinations of evidence to provide independent assurance and advisory services to the GAC and management on the adequacy and effectiveness of governance, risk management, and control processes for the Council.

The nature and scope of advisory services may be agreed with the party requesting the service, provided the internal audit function does not assume management responsibility. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during advisory engagements. These opportunities will be communicated to the appropriate level of management.

Internal audit engagements may include evaluating whether:

- ▶ Risks relating to the achievement of the Council's strategic objectives are appropriately identified and managed

- ▶ The actions of the Council's officers, directors, management, employees, and contractors or other relevant parties comply with organisational policies, procedures, and applicable laws, regulations, and governance standards
- ▶ The results of operations and programs are consistent with established goals and objectives
- ▶ Operations and programs are being carried out effectively and efficiently
- ▶ Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the Council
- ▶ The integrity of information and the means used to identify, measure, analyse, classify, and report such information is reliable
- ▶ Resources and assets are acquired economically, used efficiently and sustainably, and protected adequately.

### INTERNAL AUDIT PERFORMANCE MEASURES AND INDICATORS

The tables below contain some of the performance measures and indicators that are considered to have the most value in assessing the efficiency and effectiveness of internal audit.

The GAC should approve the measures which will be reported to each meeting and / or annually as appropriate. In addition to those listed here we also report on additional measures as agreed with management and included in our Progress Report.

**TABLE ONE: PERFORMANCE MEASURES FOR INTERNAL AUDIT**

MEASURE / INDICATOR
<b>Audit Coverage</b> Annual Audit Plan delivered in line with timetable. Actual days are in accordance with Annual Audit Plan.
<b>Relationships and customer satisfaction</b> Customer satisfaction reports - overall score at average at least 3.5 / 5 for surveys issued at the end of each audit. Annual survey to GAC to achieve score of at least 70%. External audit can rely on the work undertaken by internal audit (where planned).
<b>Staffing and Training</b> At least 60% input from qualified staff.
<b>Audit Reporting</b> Issuance of draft report within 3 weeks of fieldwork 'closing' meeting. Finalise internal audit report 1 week after management responses to report are received. 90% recommendations to be accepted by management. Information is presented in the format requested by the customer.
<b>Audit Quality</b> High quality documents produced by the auditor that are clear and concise and contain all the information requested. Positive result from any external review.

### MANAGEMENT AND STAFF PERFORMANCE MEASURES AND INDICATORS

The management and staff of the Council commit to the following:

- Providing unrestricted access to all of the Council's records, property, and personnel relevant to the performance of engagements
- Responding to internal audit requests and reports within the agreed timeframe and in a professional manner
- Implementing agreed recommendations within the agreed timeframe
- Being open to internal audit about risks and issues within the Council
- Not requesting any service from internal audit that would impair its independence or objectivity
- Providing honest and constructive feedback on the performance of internal audit.

The following three indicators are considered good practice performance measures, but we go beyond this and report on a suite of measures as included in each GAC Progress Report.

**TABLE TWO: PERFORMANCE MEASURES FOR MANAGEMENT AND STAFF**

#### MEASURE / INDICATOR

##### **Response to Reports**

Audit sponsor to respond to terms of reference within one week of receipt and to draft reports within two weeks of receipt.

##### **Implementation of recommendations**

Audit sponsor to implement all audit recommendations within the agreed timeframe.

##### **Co-operation with internal audit**

Internal audit to confirm to each meeting of the GAC whether appropriate co-operation has been provided by management and staff.

## **BDO CONTACTS**

NAME	GRADE	TELEPHONE	EMAIL
Gurpreet Dulay	Partner	+44 (0)238 088 1896	Gurpreet.Dulay@bdo.co.uk
Paul Akanbi	Assistant Manager	07393 253523	Paul.Akanbi@bdo.co.uk





**FOR MORE INFORMATION:**

**GURPREET DULAY**

Gurpreet.Dulay@bdo.co.uk

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